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STABILIZING AND REBUILDING IRAQ

Conditions in Iraq Are Conducive to Fraud, Waste, and Abuse

Statement of David M. Walker
Comptroller General of the United States

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to discuss some of the systemic conditions in Iraq that contribute to the fraud, waste, or abuse of U.S.-provided funds. Since 2003, DOD has reported total costs of about $257.5 billion for military operations in Iraq; these have increased from about $38.8 billion in fiscal year 2003 to about $83.4 billion in fiscal year 2006. The largest increase has been in operation and maintenance expenses, including items such as support for housing, food, and services; the repair of equipment; and transportation of people, supplies and equipment. Many of the operation and maintenance expenses are for services. Other U.S. government agencies had reported obligations of $29 billion for Iraqi reconstruction and stabilization, as of October 2006. These funds have been used for, among other things, infrastructure repair of the electricity, oil, water, and health sectors; training and equipping of the Iraqi security forces; and administrative expenses.

My testimony today will focus on (1) security, (2) management and reporting of the program to train and equip Iraqi security forces, (3) contracting and contract management activities, and (4) Iraqi capacity and commitment to manage and fund reconstruction and security efforts.

In preparing this testimony, we relied on previously issued GAO reports and testimonies on the security situation in Iraq, the training and equipping of Iraqi security forces, capacity of key Iraqi ministries, the management of contracts and contractors used to support deployed forces, and issues related to the reconstruction of Iraq. We performed our work in accordance with generally accepted government auditing standards.

Summary

Despite U.S. and Iraqi efforts to shift a greater share of the country's defense on Iraqi forces, the security situation continues to deteriorate. Poor security conditions have hindered the management of the more than $29 billion that has been obligated for reconstruction and stabilization efforts since 2003. Although the State Department has reported that the number of Iraqi army and police forces that has been trained and equipped has increased from about 174,000 in July 2005 to about 323,000 in December 2006, overall security conditions in Iraq have deteriorated and grown more complex. For example, the average number of enemy attacks rose from about 70 per day in January 2006 to a record high of about 180 per day in October 2006, the single worst month on record. In December 2006, the attacks averaged about 160 per day. Sectarian and militia

influences in Iraqi security forces have added to the violence. Collectively, these conditions have hindered efforts to engage with Iraqi partners and demonstrate the difficulty in making political and economic progress in the absence of adequate security conditions.

Our ongoing work has identified weaknesses in the $15.4 billion program to support the development and sustainment of Iraqi security forces. Sectarian divisions have eroded the dependability of many Iraqi units, and a number of Iraqi units have refused to serve outside the areas where they were recruited. Corruption and infiltration by militias and others loyal to parties other than the Iraqi government have resulted in the Iraqi security forces being part of the problem in many areas instead of the solution. While unit-level transition readiness assessments (TRA) provide important information on Iraqi security force capabilities, the aggregate reports DOD provides to Congress based on these assessments do not provide adequate information to judge the capabilities of Iraqi forces. The DOD reports do not detail the adequacy of Iraqi security forces' manpower, equipment, logistical support, or training and may overstate the number of forces on duty. Congress will need additional information found in the TRAs to assess DOD's supplemental request for funds to train and equip Iraqi security forces. GAO has made repeated attempts to obtain U.S. assessments of Iraqi forces without success. These data are essential for Congress to undertake an independent and informed assessment of Iraqi forces' capabilities, funding needs, and results. Further, DOD and MNF-I may be unable to ensure that all of the equipment obtained for the Iraqis reached the intended recipients. It is also unclear what accountability measures DOD has applied to the train-and-equip program for Iraq.

DOD's heavy reliance on contractors in Iraq, its long-standing contract and contract management problems, and poor security conditions provide opportunities for fraud, waste, and abuse. First, military commanders and senior DOD leaders do not have visibility over the total number of contractors who are supporting deployed forces in Iraq. As we have noted in the past, this limited visibility can unnecessarily increase costs to the government. For example, at a contractor accountability task force meeting we attended in 2006, an official from the Army Material Command noted that an Army official estimated that about $43 million is lost every year on free meals provided to contractor employees who also receive per diem. Second, DOD lacks clear and comprehensive guidance and leadership for managing and overseeing contractors. In October 2005, DOD issued, for the first time, department-wide guidance on the use of contractors that support deployed forces. Although this guidance is a good first step, it does not address a number of problems we have repeatedly

raised. In October 2006, DOD established the office of the Assistant Deputy Under Secretary of Defense for Program Support to serve as the office with primary responsibility for contractor support issues. However, as we noted in our December 2006 report, it is not clear to what extent this office serves as the focal point dedicated to leading DOD's efforts to improve its contract management and oversight. Third, key contracting issues have prevented DOD from achieving successful acquisition outcomes. There has been an absence of well-defined requirements, and DOD has often entered into contract arrangements on reconstruction efforts and into contracts to support deployed forces that have posed additional risk to the government. Moreover, DOD does not have a sufficient number of oversight personnel, which precludes its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively at each location where work is being performed. Further, a lack of training hinders the ability of military commanders to adequately plan for the use of contractor support and inhibits the ability of contract oversight personnel to manage and oversee contracts and contractors in Iraq.

Iraqi capacity and commitment to manage and fund reconstruction and security efforts remains limited. Since 2003, the United States has obligated about $29 billion to help Iraq rebuild its infrastructure and develop Iraqi security forces to stabilize the country. However, key goals have not been met. The Iraqi government has not sustained reconstruction and security efforts, in part because Iraqi government institutions are undeveloped and lack needed management and human resource skills according to U.S. officials. Key ministries face challenges in staffing a competent and non-partisan civil service, fighting corruption, and using modern technology. The inability of the Iraqi government to spend its 2006 capital budget also increases the uncertainty that it can sustain the rebuilding effort.

Transferring Additional Security Responsibilities to the Iraqi Government Has Not Improved the Security Situation

Despite U.S. and Iraqi efforts to shift a greater share of the country's defense to the Iraqi security forces, the security situation continues to deteriorate, impeding management of the more than $29 billion obligated for reconstruction and stabilization efforts. The desired end-state for U.S.-stabilization operations in Iraq is a peaceful, united, stable, and secure Iraq, well integrated into the international community, and a full partner in the global war on terrorism. To achieve this end-state, the United States is, among other things, (1) training and equipping Iraqi security forces that will be capable of leading counterinsurgency operations, and (2) transferring security responsibilities to Iraqi forces and the Iraqi

government as capabilities improve. In October 2003, the multinational force outlined a multistep plan for transferring security missions to Iraqi security forces. The security transition plan had the objective of neutralizing Iraq's insurgency while developing Iraqi forces capable of securing their country, allowing a gradual decrease in the number of coalition forces.
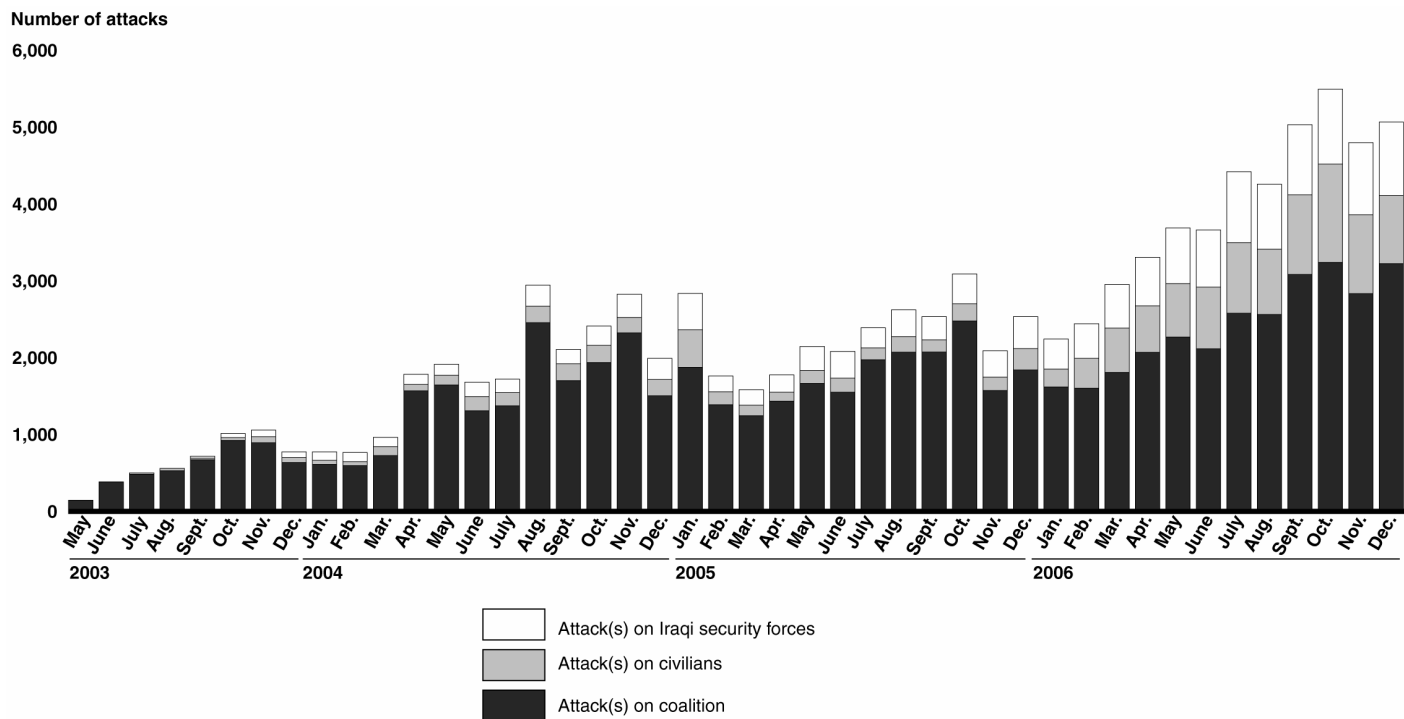
From the fall of 2003 through April 2006, MNF-I revised its security transition plan several times because the Iraqi government and security forces proved incapable of assuming security responsibilities within the time frames envisioned by the plans. For example, in April 2004, Iraqi police and military units performed poorly during an escalation of insurgent attacks against the coalition. Many Iraqi security forces around the country collapsed, with some units abandoning their posts and responsibilities and in some cases assisting the insurgency.

State and DOD have reported some progress in implementing the security transition plan. The State Department has reported that the number of army and police forces that have been trained and equipped increased from about 174,000 in July 2005 to about 323,000 in December 2006. DOD and State also have reported progress in transferring security responsibilities to Iraqi army units and provincial governments. The number of Iraqi army battalions in the lead for counterinsurgency operations increased from 21 in March 2005 to 89 in October 2006. In addition, 7 Iraqi army division headquarters and 30 brigade headquarters had assumed the lead by December 2006. Moreover, by mid-December 2006, three provincial governments—Muthanna, Dhi Qar, and Najaf—had taken over security responsibilities for their provinces.

However, the reported progress in transferring securing responsibilities to Iraq has not led to improved security conditions (see fig.1). Since June 2003, overall security conditions in Iraq have deteriorated and grown more complex, as evidenced by the increased numbers of attacks and the Sunni-Shi'a sectarian strife that followed the February 2006 bombing of the Golden Mosque in Samarra. Enemy-initiated attacks against the coalition and its Iraqi partners continued to increase through October 2006 and remain high. The average total attacks per day has increased, rising from about 70 per day in January 2006 to a record high of about 180 per day in October 2006. These attacks have increased around major religious and political events, including Ramadan and the elections. Coalition forces are still the primary target of attacks, but the number of attacks on Iraqi security forces and civilians also has increased since 2003. In October 2006, the State Department reported that the recent increase in violence

has hindered efforts to engage with Iraqi partners and illustrates the difficulty in making political and economic progress in the absence of adequate security conditions.

Figure 1: Enemy-initiated Attacks Against the Coalition and Its Iraqi Partners

Number of attacks

Attack(s) on Iraqi security forces

Attack(s) on civilians

Attack(s) on coalition

Sources: Multi-National Force-Iraq, Dec. 2006.

Sectarian and militia influences in the Iraqi security forces contribute to the higher levels of violence. According to portions of the January 2007 National Intelligence Estimate on Iraq that were declassified, sectarian divisions have eroded the dependability of many Iraqi units, and a number of Iraqi units have refused to serve outside the areas where they were recruited. According to an August 2006 DOD report, sectarian lines among the Iraqi security forces are drawn geographically, with Sunni, Shi'a, or Kurdish soldiers serving primarily in units located in areas familiar to their group. Further, according to the report, commanders at the battalion level tend to command only soldiers of their own sectarian or regional background. Moreover, in November 2006, the State Department reported that corruption and infiltration by militias and others loyal to parties other than the Iraqi government have resulted in the Iraqi security forces being part of the problem in many areas instead of the solution.

Because of the poor security conditions, the United States has not been able to draw down the number of U.S. forces in Iraq as early as planned. For example, after the increase in violence and collapse of the Iraqi security forces during the spring of 2004, DOD decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than reducing the number of troops to 105,000 by May 2004, as had been announced the prior fall. DOD reversed a decision to significantly reduce the U.S. force level during the spring of 2006 because Iraqi and coalition forces could not contain the rapidly escalating violence that occurred in the summer of 2006.

DOD Faces Weaknesses in the Program to Develop Iraqi Security Forces

Our work has identified weaknesses in the $15.4 billion program to develop Iraqi security forces. Although unit-level transition readiness assessments provide detailed information on Iraqi security force capabilities, the aggregate reports that DOD and State provide to Congress do not provide the information needed to determine the complete capabilities of the forces. Consequently, Congress will need additional information to assess the department's supplemental request for $3.8 billion to train and equip Iraqi security forces. GAO has made repeated attempts, without success, to obtain U.S. assessments of Iraqi forces. These data are essential for Congress to make an independent assessment of Iraqi forces' capabilities, needs, and results. Moreover, DOD may be unable to fully account for weapons received by the Iraqi security forces and has yet to clarify which accountability requirements it chose to apply to the program.

MNF-I uses the TRA system to determine when units of the Iraqi security forces are capable of assuming the lead for counterinsurgency operations in specific geographic areas. The TRA is a joint assessment, prepared monthly by the unit's coalition commander and Iraqi commander. According to MNF-I guidance, the purpose of the TRA system is to provide commanders with a method to consistently evaluate units; it also helps to identify factors hindering unit progress, determine resource shortfalls, and make resource allocation decisions. Iraqi army TRA reports contain capabilities ratings in the areas of personnel, command and control, equipment, sustainment/logistics, training, and leadership. Commanders use the TRA results and their professional judgment to determine a unit's overall readiness level. Each Iraqi army unit is assigned a readiness level of 1 through 4, with 1 the highest level a unit can achieve.

DOD and State reports provide some information on the development of Iraqi security forces, but they do not provide detailed information on the specific capabilities that affect the readiness levels of individual units. For example, DOD and State provide Congress with weekly and quarterly reports on the progress made in developing capable Iraqi security forces and transferring security responsibilities to the Iraqi army and the Iraqi government. This information is provided in two key areas: (1) the number of trained and equipped forces, and (2) the number of Iraqi army units and provincial governments that have assumed responsibility for security of specific geographic areas.

The State Department reports that the number of trained and equipped Iraqi security forces has increased from about 174,000 in July 2005 to about 323,000 in December 2006. However, these numbers do not provide a complete picture of the Iraqi security forces' capabilities in part because they may overstate the number of forces on duty. For example, Ministry of Interior data include police who are absent without leave, but Ministry of Defense data exclude absent personnel. In addition, poor reporting by the Ministry of Interior makes it difficult to determine how many of the coalition-trained police the ministry still employs or what percentage of the 180,000 police believed to be on the payroll are coalition trained and equipped. Moreover, the numbers do not give detailed information on the status of equipment, personnel, training, or leadership.

We previously reported that we were working with DOD to obtain the unit-level TRA reports because they would be useful in more fully informing

Congress about the capabilities and needs of Iraq's security forces and in indicating how accurately DOD reports reflect the forces' capabilities.[1] According to MNF-I's Deputy Chief of Staff for Strategic Effects, the best measure of the capabilities of Iraqi units and improvements in the security situation comes from commanders on the ground at the lowest level. Although unit-level TRA reports provide more detailed information on Iraqi security forces' capabilities, DOD had not provided GAO with these unit-level reports as of February 2007. DOD routinely provides GAO access to the readiness levels of U.S. forces.

Additionally, DOD and MNF-I may be unable to fully account for weapons issued to the Iraqi security forces, and DOD has not yet clarified what accountability requirements apply to the program. According to our preliminary analysis, as of January 2007, DOD and MNF-I may not be able to account for Iraqi security forces' receipt of about 90,000 rifles and 80,000 pistols that were reported as issued before early October 2005. Additionally, it is unclear at this time what accountability measures DOD has chosen to apply to the train-and-equip program for Iraq. As part of our ongoing work, we have asked DOD to clarify whether MNF-I and Multi-National Security Transition Command-Iraq (MNSTC-I) must follow accountability measures specified in DOD regulations, or whether DOD has established other accountability measures. For example, DOD officials expressed differing opinions on whether the DOD regulation on the Small Arms Serialization Program, which requires the entry of small arms serial numbers into a DOD-maintained registry, applies to U.S.-funded equipment procured for Iraqi security forces. While it is unclear which regulations DOD has chosen to apply, beginning in 2004, MNF-I established requirements to control and account for equipment issued to the Iraqi security forces by issuing a series of orders that outline procedures for its subordinate commands. Although MNF-I took initial steps to establish property accountability procedures, according to MNF-I officials limitations such as the initial lack of a fully operational equipment distribution network, staffing weaknesses, and the operational demands of equipping the Iraqi forces during war hindered its ability to fully execute critical tasks outlined in the property accountability orders.

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[1]GAO, *Stabilizing Iraq: An Assessment of the Security Situation*, GAO-06-1094T (Washington, D.C.: Sept. 11, 2006).

DOD Faces Challenges in Managing Contracts and Contractors in Iraq that Could Lead to Fraud, Waste, and Abuse

While DOD relies heavily on contractors for reconstruction projects and support to its forces in Iraq, it faces several management and oversight challenges. First, military commanders and senior DOD officials do not have visibility over contractors, which prevents DOD from knowing the extent to which it is relying on contractors for support in Iraq. Second, DOD lacks clear and comprehensive guidance and leadership for managing and overseeing contractors. Third, key contracting issues—including unclear requirements and not reaching agreement on key terms and conditions in a timely manner—have prevented DOD from achieving successful acquisition outcomes. Fourth, DOD does not have a sufficient number of oversight personnel to ensure that the contracts that are in place are carried out efficiently and according to the contract requirements. Finally, military commanders and contract oversight personnel do not receive sufficient training to effectively manage contracts and contractors in Iraq.

Military Commanders and Senior DOD Leaders Need to Have Visibility Over the Contractors That Support Them

DOD continues to lack the capability to provide senior leaders and military commanders with information on the totality of contractor support to deployed forces. Without such visibility, senior leaders and military commanders cannot develop a complete picture of the extent to which they rely on contractors to support their operations. We first reported the need for better visibility in 2002 during a review of the costs associated with U.S. operations in the Balkans.[2] At that time, we reported that DOD was unaware of (1) the number of contractors operating in the Balkans, (2) the tasks those contractors were contracted to do, and (3) the government's obligations to those contractors under the contracts. We noted a similar situation in 2003 in our report on DOD's use of contractors to support deployed forces in Southwest Asia and Kosovo.[3] At that time, we reported that, although most contract oversight personnel had visibility over the individual contracts for which they were directly responsible, visibility of all contractor support at a specific location was practically nonexistent at the combatant commands, component commands, and deployed locations we visited. As a result, commanders at deployed locations had limited visibility and understanding of all contractor activity supporting their operations and frequently had no easy way to get answers

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[2]GAO, *Defense Budget: Need to Strengthen Guidance and Oversight of Contingency Operations Costs*, GAO-02-450 (Washington, D.C.: May 21, 2002).

[3]GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, GAO-03-695 (Washington, D.C.: June 24, 2003).

to questions about contractor support. This lack of visibility inhibited the ability of commanders to resolve issues associated with contractor support such as force protection issues and the provision of support to the contractor personnel.

Most recently, in our December 2006 review of DOD's use of contractors in Iraq, we found that DOD's limited visibility unnecessarily increased contracting costs to the government and introduced unnecessary risk.[4] Without visibility over where contractors are deployed and what government support they are entitled to, costs to the government may increase. For example, at a contractor accountability task force meeting we attended in 2006, an Army Material Command official stated that an Army official estimated that about $43 million is lost each year on free meals provided to contractor employees at deployed locations who also receive a per diem food allowance. Also, when senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases. DOD's October 2005 guidance on contractor support to deployed forces included a requirement that the department develop or designate a joint database to maintain by-name accountability of contractors deploying with the force and a summary of the services or capabilities they provide. The Army has taken the lead in this effort, and DOD recently designated a database intended to provide improved visibility over contractors deployed to support the military in Iraq, Afghanistan, and elsewhere.

DOD provided additional information after we briefed the House Appropriations Committee's Subcommittee on Defense. According to DOD, in January 2007, the department designated the Army's Synchronized Predeployment & Operational Tracker (SPOT) as the department-wide database to maintain by-name accountability of all contractors deploying with the force. According to DOD the SPOT database includes approximately 50,000 contractor names. Additionally in December 2006, the Defense Federal Acquisition Regulation Supplement was amended to require the use of the SPOT database by contractors supporting deployed forces.

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[4]GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: Dec. 18, 2006).

DOD Needs Clear and Comprehensive Guidance and Leadership to Manage and Oversee Contractors

Since the mid-1990s, our reports have highlighted the need for clear and comprehensive guidance for managing and overseeing the use of contractors who support deployed forces. For example, in assessing the Logistics Civil Augmentation Program (LOGCAP) implementation during the Bosnian peacekeeping mission in 1997, we identified weaknesses in the available doctrine on how to manage contractor resources, including how to integrate contractors with military units and what type of management and oversight structure to establish.[5] We identified similar weaknesses when we began reviewing DOD's use of contractors in Iraq. For example, in 2003, we reported that guidance and other oversight mechanisms varied widely at the DOD, combatant-command, and service levels, making it difficult to manage contractors effectively.[6]

Similarly, in our 2005 report on private security contractors in Iraq, we noted that DOD had not issued any guidance to units deploying to Iraq on how to work with or coordinate efforts with private security contractors.[7] Our prior work has shown that it is important for organizations to provide clear and complete guidance to those involved in program implementation. In our view, establishing baseline policies for managing and overseeing contractors would help ensure the efficient use of contractors in places such as Iraq. DOD took a noteworthy step to address some of these issues when it issued new guidance in 2005 on the use of contractors who support deployed forces. However, as our December 2006 report made clear, DOD's guidance does not address a number of problems we have repeatedly raised—such as the need to provide adequate contract oversight personnel, to collect and share lessons learned on the use of contractors supporting deployed forces, or to provide DOD commanders and contract oversight personnel with training on the use of contractors overseas before deployment.[8] After our January 30, 2007 briefing to the House Appropriations Committee's Subcommittee on Defense, DOD provided additional information on a new publication it was developing. The department noted that it was developing a joint

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[5]GAO, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program*, GAO/NSIAD-97-63 (Washington, D.C.: Feb. 11, 1997).

[6]GAO-03-695.

[7]GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, D.C.: July 28, 2005).

[8]GAO-07-145.

publication entitled "Contracting and Contractor Management in Joint Operations," which it expects to be distributed in May 2007.

In addition to the lack of clear and comprehensive guidance for managing contract personnel, we have issued several reports highlighting the need for DOD components to comply with departmental guidance on the use of contractors. For example, in our June 2003 report, we noted that DOD components were not complying with a long-standing requirement to identify essential services provided by contractors and develop backup plans to ensure the continuation of those services during contingency operations should contractors become unavailable to provide those essential services. We believe that risk is inherent when relying on contractors to support deployed forces, and without a clear understanding of the potential consequences of not having the essential service available, the risks associated with the mission increase.

In other reports, we highlighted our concerns over DOD's planning for the use of contractor support in Iraq—including the need to comply with guidance to identify operational requirements early in the planning process.[9] When contractors are involved in planning efforts early and given adequate time to plan and prepare to accomplish their assigned missions, the quality of the contractor's services improves and contract costs may be lowered. DOD's October 2005 guidance on the use of contractor support to deployed forces went a long way to consolidate existing policy and provide guidance on a wide range of contractor issues. However, as of December 2006, we found little evidence that DOD components were implementing that guidance, in part because no individual within DOD was responsible for reviewing DOD and service efforts to ensure that the guidance was being consistently implemented.

We have made a number of recommendations for DOD to take steps to establish clear leadership and accountability for contractor support issues. For example, in our 2005 report on LOGCAP, we recommended that DOD designate a LOGCAP coordinator with the authority to participate in deliberations and advocate for the most effective and efficient use of the LOGCAP contract. Similarly, in our second comprehensive review of contractors on the battlefield in 2006, we recommended that DOD appoint a focal point within the Office of the Under Secretary of Defense for

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[9]GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).

Acquisition, Technology, and Logistics—at a sufficiently senior level and with the appropriate resources—to lead DOD's efforts to improve its contract management and oversight. DOD generally agreed with these recommendations. In October 2006, DOD established the office of the Assistant Deputy Under Secretary of Defense for Program Support to serve as the office of primary responsibility for contractor support issues. However, as we noted in our December 2006 report, it is not clear to what extent this office would serve as the focal point dedicated to leading DOD's efforts to improve its contract management and oversight.

DOD Needs to Address Key Contracting Issues to Promote Successful Acquisition Outcomes

DOD needs to address long-standing contracting issues related to acquisition outcomes. Two of the key factors that promote successful acquisition outcomes are (1) clearly defined requirements and (2) timely agreement on a contract's key terms and conditions, such as the scope and cost. The absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes.

Further, in Iraq, DOD's contracts were often cost- reimbursable contracts, which allow the contractor to be reimbursed for reasonable, allowable, and allocable costs to the extent prescribed in the contracts. When cost-reimbursable contracts such as those used in the reconstruction of Iraq and the support contracts for deployed forces (e.g. LOGCAP) are not effectively managed and given sufficient oversight, the government's risk is likely to increase. For example, we have reported that poorly written statements of work, which included vague or ill-defined requirements, can lead the contractor to take excessive steps to ensure customer satisfaction and result in additional costs to the government. Similarly, we have reported that contract customers need to conduct periodic reviews of services provided under cost-reimbursable contracts to ensure that services provided are supplied at an appropriate level. Without such a review, the government is at risk of paying for services it no longer needs. For example, the command in Iraq lowered the cost of the LOGCAP contract by $108 million dollars by reducing services and eliminating unneeded dining facilities and laundries.

A prerequisite to achieving good acquisition outcomes is a match between well-defined requirements and available resources. U.S. reconstruction goals were based on assumptions about the money and time needed, which have proven unfounded. U.S. funding was not meant to rebuild Iraq's entire infrastructure but rather to lay the groundwork for a longer-

term reconstruction effort that anticipated significant assistance from international donors.

To provide that foundation, the Coalition Provisional Authority (CPA) allocated $18.4 billion in fiscal year 2004 reconstruction funds among various projects in each reconstruction sector, such as oil, electricity, and water and sanitation.[10] Almost immediately after the CPA dissolved, the Department of State reprioritized funding for projects that would not begin until mid to late 2005 and used those funds to target high-impact projects. By July 2005, the State Department had conducted a series of funding reallocations to address new priorities, including increasing support for security and law enforcement efforts and oil infrastructure enhancements. One of the consequences of these reallocations was to reduce funding for the water and sanitation sector by about 44 percent, from $4.6 billion to $2.6 billion. One reallocation of $1.9 billion in September 2004 led the Project and Contracting Office to cancel some projects, most of which were planned to start in mid-2005. Changes, even those made for good reasons, make it more difficult to manage individual projects to successful outcomes.

Further, such changes invariably have a cascading effect on individual contracts. To produce desired outcomes within available funding and required time frames, DOD and its contractors need to have a clear understanding of reconstruction objectives and how they translate into the terms and conditions of a contract: what goods or services are needed, when they are needed, the level of performance or quality desired, and what the cost will be. When such requirements were not clear, DOD often entered into contract arrangements on reconstruction efforts that posed additional risks, such as authorizing contractors to begin work before key terms, conditions such as the work to be performed, and projected costs were fully defined.[11] For example, we found that, as of March 2004, about $1.8 billion had been obligated on reconstruction contract actions without DOD and the contractors reaching an agreement on the final scope and cost of the work.

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[10]From April 2003 to June 28, 2004, the CPA served as Iraq's interim government and was responsible for overseeing, directing, coordinating, and approving rebuilding efforts. With the establishment of Iraq's interim government, the CPA ceased to exist and its responsibilities were transferred to the Iraqi government or to other U.S. agencies. The Department of State is now responsible for overseeing U.S. efforts to rebuild Iraq.

[11]GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, GAO-04-605 (Washington, D.C.: Jun. 1, 2004).

In September 2006, we issued a report on how DOD addressed issues raised by the Defense Contract Audit Agency (DCAA) in its audits of Iraq-related contract costs.[12] We noted that, in cases where DOD authorized contractors to begin work before reaching agreement on the scope or price, DOD contracting officials were less likely to remove costs from a contractor's proposal when DCAA raised questions about them if the contractor had already incurred those costs. For example, of the 18 audit reports we reviewed, DCAA issued 11 reports on contract actions where more than 180 days had elapsed between the beginning of the period of performance to final negotiations. For nine of these audits, the period of performance DOD initially authorized for each contract action concluded before final negotiations took place. In one case, DCAA questioned $84 million in its audit of a task order proposal for an oil mission. In this case, the contractor did not submit a proposal to DOD until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the task order until more than a year after the contractor had completed the work. In the final negotiation documentation, the DOD contracting official stated that the payment of incurred costs is required for cost-type contracts, if there are no unusual circumstances. In contrast, in the few audit reports we reviewed in which the government negotiated the terms before starting work, we found that the portion of questioned costs removed from the proposal was substantial.

DOD Needs Sufficient Contract Oversight Personnel to Ensure that Contract Requirements Are Met Effectively and Efficiently

An unstable contracting environment—when contract requirements are in a state of flux—requires greater attention to oversight, which in turn relies on a capable government workforce. Having personnel who are trained to conduct oversight and held accountable for their oversight responsibilities is essential for effective oversight of contractors. If surveillance is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner and potentially paying too much for the services it receives.

On multiple occasions, we and others have reported on deficiencies in DOD's oversight. For example, our June 2004 report found that early contract administration challenges were caused, in part, by the lack of personnel.[13] In addition, the Special Inspector General noted that, with

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[12]GAO, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, GAO-06-1132 (Washington, D.C.: Sep. 25, 2006).

[13]GAO-04-605.

regard to the CPA, gaps existed in the experience levels of those hired and the quality and depth of their experiences relative to their assigned jobs. Similarly, in 2004, an interagency assessment team found that the number of contracting personnel was insufficient to handle the increased workload. In part, the CPA's decision to award seven contracts in early 2004 to help better coordinate and manage the fiscal year 2004 reconstruction efforts recognized this shortfall. As a result, DOD is in the position of relying on contractors to help manage and oversee the work of other contractors.

More recently, in December 2006, we reported that DOD does not have sufficient numbers of contractor oversight personnel at deployed locations, which limits its ability to obtain a reasonable assurance that contractors are meeting contract requirements efficiently and effectively.[14] Although we could find no DOD guidelines on the appropriate number of personnel needed to oversee and manage DOD contracts at a deployed location, several contract oversight personnel stated that DOD does not have adequate personnel at deployed locations to effectively oversee and manage contractors. For example, an Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. In addition, officials responsible for contracting with MNF-I stated that they did not have enough contract oversight personnel and quality assurance representatives to allow MNF-I to reduce the Army's use of the LOGCAP contract by awarding more sustainment contracts for base operations support in Iraq. Furthermore, a LOGCAP program official noted that, if adequate staffing had been in place, the Army could have realized substantial savings on the LOGCAP contract through more effective reviews of new requirements. Finally, the contracting officer's representative for an intelligence support contract in Iraq stated that he was also unable to visit all of the locations that he was responsible for overseeing. At the locations he did visit, he was able to work with the contractor to improve the project's efficiency. However, because he was not able to visit all of the locations at which the contractor provided services in Iraq, he was unable to duplicate those efficiencies at all the locations in Iraq where the contractor provided support.

The inability of contract oversight personnel to visit all the locations they are responsible for can also create problems for units that face difficulties resolving contractor performance issues at those locations. For example,

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[14]GAO-07-145.

officials from a brigade support battalion stated that they had several concerns with the performance of a contractor that provided maintenance for the brigade's mine-clearing equipment. These concerns included delays in obtaining spare parts and a disagreement over the contractor's obligation to provide support in more austere locations in Iraq. According to the officials, their efforts to resolve these problems in a timely manner were hindered because the contracting officer's representative was located in Baghdad while the unit was stationed in western Iraq. In other instances, some contract oversight personnel may not even reside within the theater of operations. For example, we found the Defense Contract Management Agency's (DCMA) legal personnel responsible for LOGCAP in Iraq were stationed in Germany, while other LOGCAP contract oversight personnel were stationed in the United States. According to a senior DCMA official in Iraq, relying on support from contract oversight personnel outside the theater of operations makes resolving contractor performance issues more difficult for military commanders in Iraq, who are operating under the demands and higher operational tempo of a contingency operation in a deployed location.

Better Training of Military Commanders and Contract Oversight Personnel Is Essential

Since the mid-1990s, our work has shown the need for better pre-deployment training for military commanders and contract oversight personnel on the use of contractor support. Training is essential for military commanders because of their responsibility for identifying and validating requirements to be addressed by the contractor. In addition, commanders are responsible for evaluating the contractor's performance and ensuring the contract is used economically and efficiently. Similarly, training is essential for DOD contract oversight personnel who monitor the contractor's performance for the contracting officer.

As we reported in 2003, military commanders and contract management and oversight personnel we met in the Balkans and throughout Southwest Asia frequently cited the need for better preparatory training.[15] Additionally, in our 2004 review of logistics support contracts, we reported that many individuals using logistics support contracts such as LOGCAP were unaware that they had any contract management or oversight roles.[16] Army customers stated that they knew nothing about LOGCAP before their deployment and that they had received no pre-deployment training

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[15]GAO-03-695.

[16]GAO-04-854.

regarding their roles and responsibilities in ensuring that the contract was used economically and efficiently. In our December 2006 report, we noted that many officials responsible for contract management and oversight in Iraq stated that they received little or no training on the use of contractors prior to their deployment, which led to confusion over their roles and responsibilities.[17] For example, in several instances, military commanders attempted to direct (or ran the risk of directing) a contractor to perform work outside the contract's scope, even though commanders are not authorized to do so. Such cases can result in increased costs to the government.

Over the years, we have made several recommendations to DOD intended to strengthen this training. Some of our recommendations were aimed at improving the training of military personnel on the use of contractor support at deployed locations, while others focused on training regarding specific contracts, such as LOGCAP. Our recommendations have sought to ensure that military personnel deploying overseas have a clear understanding of the role of contractors and the support the military provides to them. DOD has agreed with most of our recommendations. However, we continue to find little evidence that DOD has improved training for military personnel on the use of contractors prior to their deployment.

DOD provided additional information after we briefed the House Appropriations Committee's Subcommittee on Defense. DOD advised us that they had established a contingency contracting training program at the Defense Acquisition University. While this is a good first step, we would note that according to the course description, the course is intended for contracting professionals. As we noted, we believe that there is a need to provide training for those personnel who are not contracting professionals such as commanders and others who are likely to work with contractor employees on a daily bases, but are not contracting professionals.

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[17]GAO-07-145.

The Iraqi Government Currently Lacks the Capacity to Sustain and Continue Reconstruction and Security Efforts

Since 2003, the United States has obligated about $29 billion to help Iraq rebuild its infrastructure and develop Iraqi security forces to stabilize the country. However, key goals have not been met and the Iraqi government has not sustained these efforts, in part because of the lack of management and human resource skills in Iraq's key ministries. According to U.S. officials, the inability of the Iraqi government to spend its 2006 capital budget also increases the uncertainty that it can sustain the rebuilding effort.

Iraq Has Difficulty Sustaining the Billions of Dollars Invested in Infrastructure and Security

The United States has obligated about $14 billion to restore essential services such as oil, electricity, and water, and more than $15 billion to train, equip, and sustain Iraqi security forces. Reconstruction has focused on projects such as repairing oil facilities, increasing electricity generating capacity, and restoring water treatment plants. For example, the U.S. Army Corps of Engineers reported that it had completed 293 of 523 planned electrical projects, including the installation of 35 natural gas turbines in Iraqi power generation plants. Stabilization efforts have focused on MNF-I training and equipping approximately 323,000 Iraqi security forces. To help sustain these forces, MNF-I is assisting Iraq's Ministries of Defense and Interior in funding and building logistics systems for the military and police. The military logistics system includes a national depot, regional logistics centers, and garrison support units. The draft logistics plan for the police called for a system of warehouses to perform maintenance on equipment and distribution centers to dispense supplies.

The United States has spent billions of dollars rebuilding the infrastructure and developing Iraqi security forces. However, the Iraqi government has had difficulty operating and sustaining the aging oil infrastructure, maintaining the new and rehabilitated power generation facilities, and developing and sustaining the logistics systems for the Ministries of Defense and Interior. The coalition provides the critical support necessary for the ministries to carry out their security responsibilities. As of December 2006, neither ministry was self-sufficient in logistics, command and control, or intelligence. For example:

- Iraq's oil production and exports have consistently fallen below their respective program goals. In 2006, oil production averaged 2.1 million barrels per day, compared with the U.S. goal of 3.0 million barrels per day. The Ministry of Oil has had difficulty operating and maintaining the refineries. According to U.S. officials, Iraq lacks qualified staff and expertise at the field, plant, and ministry level, as well as an effective

inventory control system for spare parts. According to State, the Ministry of Oil will have difficulty maintaining future production levels unless it initiates an ambitious rehabilitation program. In addition, oil smuggling and theft of refined oil products have cost Iraq substantial resources.
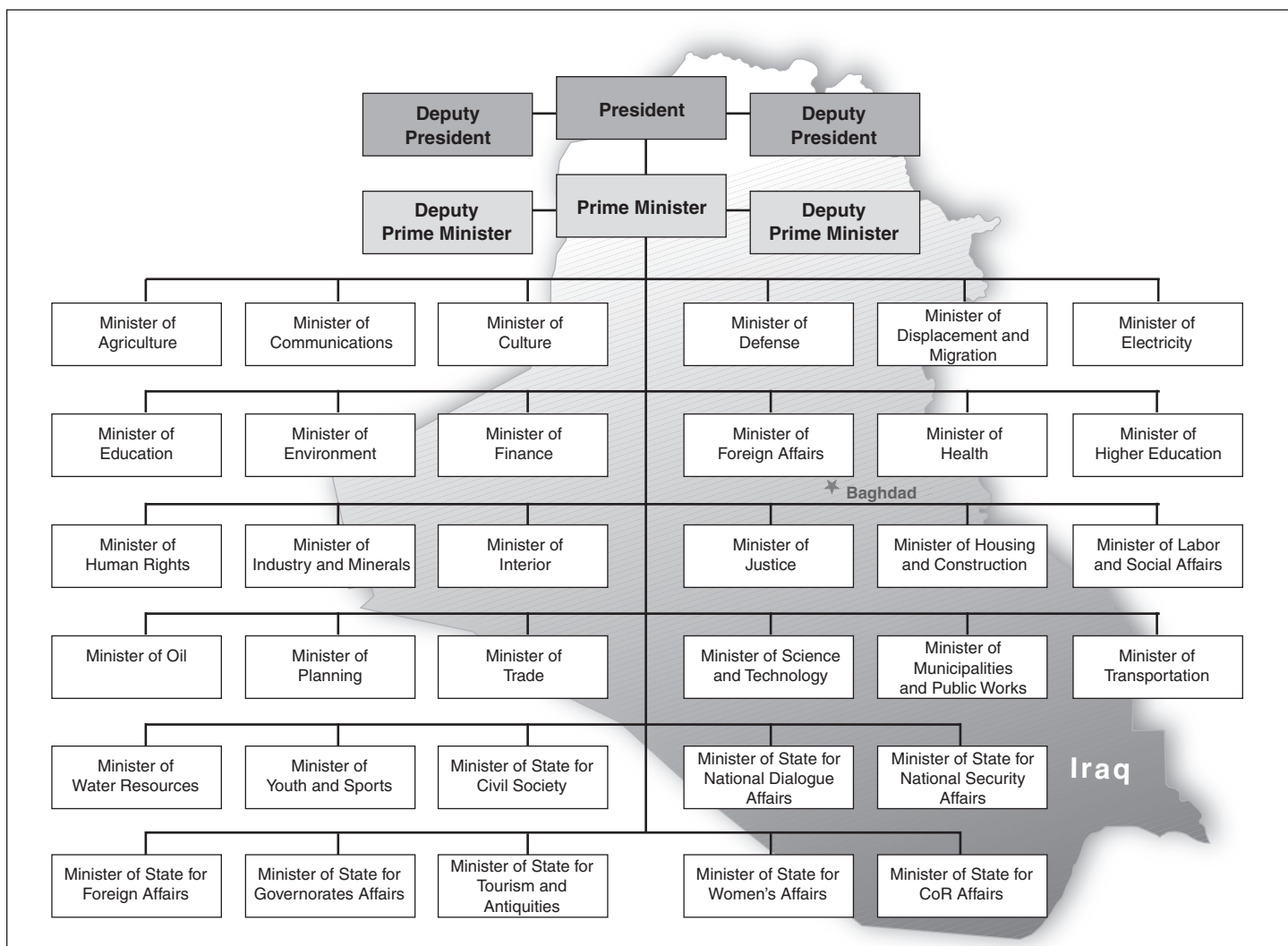
- In 2006, electrical output reached 4,317 megawatts of peak generation per day, falling short of the U.S. goal of 6,000 megawatts. Prewar electrical output averaged 4,200 megawatts per day. Production also was outpaced by increasing demand, which has averaged about 8,210 megawatts per day. The Iraqi government has had difficulty sustaining the existing facilities. Problems include the lack of training, inadequate spare parts, and an ineffective asset management and parts inventory system. Moreover, plants are sometimes operated beyond their recommended limits, resulting in longer downtimes for maintenance. In addition, major transmission lines have been repeatedly sabotaged and repair workers have been intimidated by anti-Iraqi forces.

- As of December 2006, the coalition was providing significant levels of support to the Iraqi military because the Ministry of Defense could not fully supply its forces with adequate life support, fuel, uniforms, building supplies, ammunition, vehicle maintenance and spare parts, or medical supplies. In addition, the ministry was not able to run its communications networks on its own or independently acquire communications equipment. Furthermore, the Ministry will likely lack a comprehensive plan for its intelligence structure until December 2007. Although the coalition plans to begin turning over certain support functions to ministerial control in the spring of 2007, it is unlikely that the Ministry of Defense will achieve complete self-sufficiency in logistics, command and control, or intelligence before mid-2008.

- The Ministry of Interior also receives critical support from the coalition and is not self-sufficient in logistics, command and control, or intelligence. Because the ministry is unable to provide maintenance for vehicles of the national police, the coalition has let several contracts to train Iraqi mechanics, provide spare parts to contractors, and repair police vehicles. In addition, the ministry is not able to self-sufficiently operate or maintain its communications networks. Furthermore, the coalition estimates that, if the security environment in Baghdad improves, the ministry's intelligence organization will be self-sufficient by mid-2008. However, if this self-sufficiency depends on improved security, there may be cause for concern, given that the average total attacks per day have increased, rising from about 70 per day in January 2006 to a record high of about 180 per day in October 2006. Although the coalition plans to begin turning over certain support functions to ministerial control in the spring of 2007, it is

unlikely that the Ministry of Interior will achieve complete self-sufficiency in logistics, command and control, or intelligence before mid 2008.

The Iraqi Government Faces Critical Challenges Staffing Effective Civil Service, Fighting Corruption, and Managing Resources

Iraqi government institutions are undeveloped and confront significant challenges in staffing a competent, non-partisan civil service; effectively fighting corruption; using modern technology; and managing resources effectively. Figure 2 provides an organizational chart of the Iraqi executive branch and ministries.

Figure 2: Iraqi Executive Branch and Ministries

Deputy President	**President**	**Deputy President**
Deputy Prime Minister	**Prime Minister**	**Deputy Prime Minister**

Minister of Agriculture	Minister of Communications	Minister of Culture	Minister of Defense	Minister of Displacement and Migration	Minister of Electricity
Minister of Education	Minister of Environment	Minister of Finance	Minister of Foreign Affairs	Minister of Health	Minister of Higher Education
Minister of Human Rights	Minister of Industry and Minerals	Minister of Interior	Minister of Justice	Minister of Housing and Construction	Minister of Labor and Social Affairs
Minister of Oil	Minister of Planning	Minister of Trade	Minister of Science and Technology	Minister of Municipalities and Public Works	Minister of Transportation
Minister of Water Resources	Minister of Youth and Sports	Minister of State for Civil Society	Minister of State for National Dialogue Affairs	Minister of State for National Security Affairs	
Minister of State for Foreign Affairs	Minister of State for Governorates Affairs	Minister of State for Tourism and Antiquities	Minister of State for Women's Affairs	Minister of State for CoR Affairs	

★ Baghdad

Iraq

Source: State Department.

The Iraqi civil service remains hampered by inadequately trained or unskilled staff whose political and sectarian loyalties jeopardize the ministries' ability to provide basic services and build credibility among Iraqi citizens, according to U.S. government reports and international assessments. A U.S. report states that the government ministries and the associated budgets are used as sources of power for political parties with

ministry positions staffed with party cronies as a reward for political loyalty.[18] According to U.S. officials, patronage leads to staff instability as many are replaced when the government changes or a new minister is named. Some Iraqi ministries, including the Ministries of Interior, Agriculture, Health, Transportation, and Tourism, are led by ministers whose allegiance is to political parties hostile to U.S. goals. These ministers use their positions to pursue partisan agendas that conflict with the goal of building a government that represents all ethnic groups. U.S. officials have expressed reservations about working in some of these ministries, noting that the effectiveness of programs is hampered by the presence of unresponsive or anti-U.S. officials.

Corruption in Iraq is reportedly widespread and also poses a major challenge to building an effective Iraqi government. Corruption jeopardizes future flows of needed international assistance and reportedly undermines the government's ability to make effective use of current reconstruction assistance. According to U.S. government and World Bank reports, there are several reasons for corruption in Iraq. The reasons, among others, include (1) an ineffective banking system that leaves the government dependent on cash transactions; (2) nontransparent, obsolete ministry procurement systems; and (3) ineffective, inadequately resourced accountability institutions, such as the ministries' inspectors general.

GAO and the inspectors general are working with Iraq's accountability organizations—the Board of Supreme Audit, Commission on Public Integrity, and inspectors general of the ministries—to strengthen their capabilities.

The Iraqi ministries lack adequate information technology and have difficulty managing their resources, according to U.S. officials and an international assessment, further contributing to the corruption problem. For example, U.S. officials said that the Ministry of Interior relies on manual processes such as hand-written ledgers and a cash-based payroll system that has resulted in Iraqi police leaving their posts to deliver cash to their families. U.S. officials also estimated that 20 to 30 percent of the Ministry of Interior personnel are "ghost employees"— nonexistent staff paid salaries that are collected by other officials.

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[18]See Department of Defense, Measuring Stability and Security in Iraq (Washington, D.C.: August 2006).

Inability of Iraq's Ministries to Spend the 2006 Capital Budget Creates Further Uncertainty about Sustaining Efforts

Sound government budgeting practices can help determine the priorities of the new government, provide transparency on government operations, and help decision makers weigh competing demands for limited resources. However, unclear budgeting and procurement rules have affected Iraq's efforts to spend capital budgets effectively and efficiently according, to U.S. officials. The inability to spend the money raises serious questions for the government, which has to demonstrate to skeptical citizens that it can improve basic services and make a difference in their daily lives. The U.S. government has launched a series of initiatives in conjunction with other donors to address this issue and improve the Iraqi government's budget execution.

As of August 2006, the government of Iraq had spent, on average, 8 percent of its annual capital goods budget and 14 percent of its annual capital projects budget.[19] Some of the weakest spending occurs at the Ministry of Oil, which relies on damaged and outdated infrastructure to produce the oil that provides nearly all of the country's revenues. The Ministry of Oil's $3.5 billion 2006 capital project's budget targeted key enhancements to the country's oil production, distribution, and export facilities. However, as of August 2006, the ministry had spent less than 1 percent of these budgeted funds. Moreover, Interior and Defense had only spent about 11 and 1 percent, respectively, of their capital goods budget, which include funds for the purchase of weapons, ammunition, and vehicles, among other items. According to U.S. officials, Iraq lacks clearly defined and consistently applied budget and procurement rules needed for effective budget planning and implementation. The ministries have multiple rules and regulations promulgated under the former regime, the CPA, and the current government. The lack of procurement and budgeting rules creates opportunities for corruption and mismanagement. Table 1 provides further information on the Iraqi ministries efforts to spend their capital budgets.

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[19]Iraq's fiscal year begins on January 1 of each year.

Table 1: 2006 Annual Iraq Budget and Actual Expenditures through August 2006

Millions of dollars

Ministry	2006 Annual Budget			Expenditures through August 2006		
	Capital goods	Capital projects	Total budget	Capital goods	Capital projects	Total budget
Finance	$10	$33	$16,506	$1	$74	$8,895
Planning	4	27	55	0.4	3	9
Interior	233	27	1,919	25	0.2	958
Defense	864	33	3,443	12	0.0	831
Oil	2	3,533	3,590	0.4	4	40
Electricity	4	767	840	0.3	267	279
Water	0.2	200	259	0.0	49	78
Justice	3	10	74	2	0.2	34
Others	272	1,552	7,290	77	480	3,501
Total	**$1,392**	**$6,181**	**$33,975**	**$117 (8.4%)**	**$877 (14.2%)**	**$14,623 (43.0%)**

Source: GAO analysis of Iraqi budget data.

Concluding Observations

As I have discussed in my statement today, a number of conditions exist in Iraq that have led or will lead to fraud, waste, and abuse of U.S funds and will affect the U.S. effort to achieve our security, economic, and diplomatic goals in Iraq. Addressing these problems will require complete and transparent information on the progress made to reasonably judge our past efforts and determine future directions. This includes more accurate, reliable, and comprehensive information on the cost of the war, the capabilities of Iraqi security forces, and the results of U.S. efforts to build the managerial capacity of the Iraqi ministries.

Furthermore, given DOD's heavy and increasing reliance on contractors in Iraq and elsewhere, and the risks this reliance entails, it may be appropriate to ask if DOD has become too reliant on contractors to provide essential services. Moreover, given the pace of activities during contingency operations, it is essential that DOD and other government agencies engage, as early as possible, in (1) identifying potential support requirements, (2) locating contractors capable of providing support and negotiating with contractors to provide this support in a timely and cost-effective manner, and (3) planning for additional military and civilian personnel to oversee and manage this increase in contractor activities.

Mr. Chairman and members of the committee, this concludes my statement. I will be happy to answer any questions you may have.

Contact and Acknowledgments

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